

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2015

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### III. Detailed Notes On All Funds

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#### H. Short-term Obligations

Short-term obligations at June 30, 2015, and changes for the fiscal year then ended (expressed in thousands) are as follows:

	6/30/2014 Beginning Balance	Additions	Deletions	6/30/2015 Ending Balance
<i>Governmental Activities</i>				
Certificates of Indebtedness	\$ 0	\$ 675,000	\$ 675,000	\$ 0
Accrued receivables:				
Expanded Lottery Act Revenues Fund	0	86,263	86,263	0
Children's Initiatives Fund	0	28,100	28,100	0
Correctional Institution Building Fund	0	3,994	3,994	0
State Economic Development	0	21,254	21,254	0
Kansas Endowment for Youth Fund	0	196	196	0
	<u>0</u>	<u>196</u>	<u>196</u>	<u>0</u>
Total short-term obligations	<u>\$ 0</u>	<u>\$ 814,807</u>	<u>\$ 814,807</u>	<u>\$ 0</u>

A Certificate of Indebtedness may be written and issued by the Pooled Money Investment Board (PMIB), an agency of the State, per K.S.A. 75-3725a. This occurs when it appears estimated resources are sufficient in the State General Fund (SGF) to meet the State's expenditures and obligations for that fiscal year, but may not be sufficient to do so in a particular month(s) when obligations are due. Once approval has been granted as prescribed in K.S.A. 75-3725a, the written Certificate of Indebtedness is issued by the PMIB subject to redemption from the SGF not later than June 30, immediately following the issuance of the indebtedness. No interest is accrued or paid. A Certificate of Indebtedness of \$675 million was issued on July 1, 2014, and redeemed on June 26, 2015.

Per Senate Bill 171, Section 112(r) of the 2014 Session, on July 1, 2014, receivables are to be posted to the State Treasurer's receivables for the Expanded Lottery Act Revenues Fund. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2014, a receivable was posted for \$86.3 million and was reduced to zero in June 2015.

Per Senate Bill 171, Section 112(h) of the 2014 Session, on July 1, 2014, receivables are to be posted to the State Treasurer's receivables for the Children's Initiatives Fund by an amount certified by the director of budget which is to be 50 percent of the estimated receipts during the year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2015 a receivable was posted for \$28.1 million and was reduced to zero in June 2015.

Per Senate Bill 171, Section 112(j) of the 2014 Session, on July 1, 2014, receivables are to be posted to the State Treasurer's receivables for the Correctional Institutions Building Fund by an amount certified by the director of budget which is to be 80 percent of the estimated receipts during the year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2015, a receivable was posted for \$4.0 million and was reduced to zero in February 2015.

Per Senate Bill 171, Section 112(i) of the 2014 Session, on July 1, 2014, receivables are to be posted to the State Treasurer's receivables for the State Economic Development Initiatives Fund by an amount certified by the director of budget which is to be 50 percent of the estimated receipts during the year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2015, a receivable was posted for \$21.3 million and was reduced to zero in November 2014.

Per Senate Bill 171, Section 112(k) of the 2014 Session, on July 1, 2014, receivables are to be posted to the State Treasurer's receivables for the Kansas Endowment for Youth Fund by an amount certified by the director of budget

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which is to be 75 percent of the amount approved for expenditure during the fiscal year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2015, a receivable was posted for \$196,000 and was reduced to zero in June 2015.

#### I. Long-term Obligations

A summary of long-term obligations at June 30, 2015, for the fiscal year then ended is as follows (expressed in thousands):

	Governmental Activities	Business-type Activities	Component Units	Total
Revenue bonds payable	\$ 3,439,111	\$ 407,056	\$ 825,775	\$ 4,671,942
Less bonds payable on demand	(147,000)	0	0	(147,000)
Notes payable	18,093	0	0	18,093
Other component units of university system	0	0	406,927	406,927
Capital leases payable	80,809	0	7,752	88,561
Arbitrage rebate payable	184	237	404	825
Claims	100,255	258,093	0	358,348
Judgments	48,721	0	0	48,721
Compensated absences	113,015	92	78,459	191,566
Other post employment benefits	59,504	424	71,015	130,943
Net pension liability	1,750,877	5,520	240,024	1,996,421
Pollution remediation	48,747	0	0	48,747
Other	0	11,680	221,062	232,742
Total long-term obligations	<u>\$ 5,512,316</u>	<u>\$ 683,102</u>	<u>\$ 1,851,418</u>	<u>\$ 8,046,836</u>

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Long-term obligations at June 30, 2015, and changes for the fiscal year then ended are as follows (expressed in thousands):

	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2014 Beginning Balance	Prior Period Adjustment	Additions	Deletions	6/30/2015 Ending Balance	Amounts Due In One Year
<b>Governmental Activities</b>										
<u>Revenue bonds payable:</u>										
KDFA series 2004 A-1, 2 & 3	2004	2.00 - 5.00%	2015	\$ 44,920	\$ 2,165	\$ 0	\$ 0	\$ 2,165	\$ 0	\$ 0
KDFA series 2004 C	2004	3.43 - 5.50%	2034	500,000	433,435	0	0	12,835	420,600	13,440
KDFA series 2005 H-1, 2, 3, 4 & 5	2006	3.25 - 5.00%	2032	88,175	58,400	0	0	58,400	0	0
KDFA series 2006 A	2006	4.00 - 5.00%	2027	209,490	156,125	0	0	126,700	29,425	9,380
KDFA series 2006 L-1, 2, 3	2007	4.00 - 4.25%	2026	13,210	8,360	0	0	6,645	1,715	840
KDFA series 2007 F	2007	4.00 - 4.97%	2017	34,505	12,130	0	0	3,850	8,280	4,040
KDFA series 2007 K-1, 2A, 2B, & 3	2008	4.00 - 5.25%	2028	59,455	46,890	0	0	33,070	13,820	2,530
KDFA series 2008 L-1, 2, & 3	2009	2.00 - 5.25%	2029	43,265	35,170	0	0	1,785	33,385	1,840
KDFA series 2009 A	2009	2.50 - 5.00%	2035	3,825	3,825	0	0	120	3,705	120
KDFA series 2009 B	2009	5.00%	2019	515	515	0	0	95	420	95
KDFA series 2009 F	2009	3.00 - 5.00%	2019	49,425	32,625	0	0	5,940	26,685	6,240
KDFA series 2009 M-1 & M-2	2010	3.00 - 6.31%	2035	89,765	78,595	0	0	2,950	75,645	3,600
KDFA series 2009 N	2010	3.88 - 5.80%	2025	10,050	10,050	0	0	710	9,340	735
KDFA series 2010 C	2010	5.00%	2020	52,755	37,670	0	0	5,540	32,130	5,815
KDFA series 2010 E-1 & E-2	2010	2.00 - 6.12%	2035	84,160	79,495	0	0	5,210	74,285	5,945
KDFA series 2010 F	2010	1.58 - 6.25%	2032	18,400	14,445	0	0	1,805	12,640	1,855
KDFA series 2010 O-1 & O-2	2011	2.70 - 6.10%	2030	43,455	38,090	0	0	1,885	36,205	1,925
KDFA series 2011 B	2012	2.00 - 4.13%	2031	53,780	47,185	0	0	2,045	45,140	2,105
KDFA series 2011 K	2012	3.00 - 5.00%	2023	109,135	100,115	0	0	2,470	97,645	1,265
KDFA series 2013 A-1, 2 & 3	2014	4.00 - 5.00%	2033	71,885	69,400	0	0	2,665	66,735	3,370
KDFA Series 2013 B	2014	3.00 - 5.00%	2024	40,555	37,220	0	0	3,020	34,200	4,880
KDFA Series 2015 A	2015	3.20 - 5.00%	2035	230,475	-	0	230,475	0	230,475	830
KDFA Series 2015 G	2015	4.84 - 5.00%	2035	203,585	-	0	203,585	0	203,585	0
KDOT series 2002 B & C*	2003	3.39%	2020	320,005	236,215	0	0	236,215	0	0
KDOT series 2004 A	2004	4.50 - 5.50%	2019	250,000	76,235	0	0	0	76,235	0
KDOT series 2004 B	2005	4.30 - 5.00%	2025	200,000	200,000	0	0	0	200,000	0
KDOT series 2004 C*	2005	Variable	2025	147,000	147,000	0	0	0	147,000	0
KDOT series 2009 A	2010	2.25 - 5.00%	2021	176,680	176,680	0	0	0	176,680	20,445
KDOT series 2010 A	2011	4.60%	2036	325,000	325,000	0	0	0	325,000	0
KDOT series 2012 A	2013	Variable	2016	151,365	128,290	0	0	90,065	38,225	38,225
KDOT series 2012 B	2013	5.00%	2023	144,885	144,885	0	0	0	144,885	0
KDOT series 2012 C	2013	4.00 - 5.00%	2033	200,000	200,000	0	0	0	200,000	7,000
KDOT series 2014 A	2015	5.00%	2031	250,000	0	0	250,000	0	250,000	0
KDOT series 2014 B	2015	Variable	2020	212,875	0	0	212,875	0	212,875	37,000
				(705,985)	(383,215)	0	0	(236,215)	(147,000)	173,520
Less bonds payable on demand*										0
<u>Plus deferred amounts:</u>										
Net unamortized premium (discount)				-	128,475	0	116,447	32,771	212,151	0
Total revenue bonds payable				<u>\$ 3,726,610</u>	<u>2,681,470</u>	<u>0</u>	<u>1,013,382</u>	<u>402,741</u>	<u>3,292,111</u>	<u>173,520</u>
<u>Sales tax limited obligation bonds</u>										
1999 KISC	1999	4.20 - 5.25%	2028	18,182	15,219	(15,219)	0	0	0	0
400 acres refunding	2005	3.25 - 5.54%	2021	4,077	2,520	(2,520)	0	0	0	0
2012 refunding bond	2013	2.00 - 5.00%	2016	9,589	7,286	(7,286)	0	0	0	0
Total sales tax limited obligation bonds				<u>\$ 31,848</u>	<u>25,025</u>	<u>(25,025)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>Notes payable:</u>										
Water supply storage in federal reservoirs				29,189	15,350	0	3,858	1,115	18,093	951
Total notes payable				<u>\$ 29,189</u>	<u>15,350</u>	<u>0</u>	<u>3,858</u>	<u>1,115</u>	<u>18,093</u>	<u>951</u>
Arbitrage rebate payable					190	0	0	6	184	0
Sales tax limited obligation accretion bonds					80,008	(80,008)	0	0	0	0
Capital leases payable					91,027	(9,172)	12,550	13,596	80,809	5,899
Claims					95,993	0	456,140	451,878	100,255	43,544
Judgments					58,464	0	5,000	14,743	48,721	17,245
Compensated absences					120,831	0	14,184	22,000	113,015	60,744
Other post employment benefits					58,631	0	13,203	12,330	59,504	0
Net pension liability					0	2,050,107	130,165	429,395	1,750,877	0
Pollution remediation					65,678	0	-	16,931	48,747	0
Total governmental activities					<u>\$ 3,292,667</u>	<u>\$ 1,935,902</u>	<u>\$ 1,648,482</u>	<u>\$ 1,364,735</u>	<u>\$ 5,512,316</u>	<u>\$ 301,903</u>

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	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2014 Beginning Balance	Prior Period Adjustment	Additions	Deletions	6/30/2015 Ending Balance	Amounts Due In One Year
<b>Business-type Activities</b>										
Revenue bonds payable:										
KDFA series 2001 I & II	2002	5.00 - 5.50%	2018	\$ 124,540	\$ 40,500	\$ 0	\$ 0	\$ 9,500	\$ 31,000	\$ 11,000
KDFA series 2004 II	2004	4.92 - 5.25%	2023	45,140	5,725	0	0	2,810	2,915	2,915
KDFA series 2004 I & 2	2005	3.00 - 5.00%	2019	176,010	3,000	0	0	2,060	940	940
KDFA series 2005 CW I & II	2006	3.00 - 5.00%	2027	118,860	48,320	0	0	11,340	36,980	11,350
KDFA series 2009 DW 1 & 2	2010	1.50 - 5.60%	2029	73,040	36,830	0	0	760	36,070	1,030
KDFA series 2010 SRF 1,2 & 3 (CW & DW)	2011	1.68 - 5.95%	2030	213,950	192,965	0	0	9,640	183,325	8,935
KDFA series 2011 SRF DW 1 & 2	2011	2.00-4.20%	2031	53,380	53,025	0	0	370	52,655	1,380
KDFA series 2005 TR	2006	3.00 - 5.00%	2026	32,690	17,690	0	0	2,295	15,395	1,805
KDFA series 2006 TR	2007	4.00 - 5.00%	2027	24,755	12,630	0	0	1,960	10,670	2,070
KDFA series 2008 G	2009	4.60 - 5.05%	2023	14,200	1,196	0	0	200	996	209
KDFA series 2009 TR	2009	2.50 - 4.78%	2028	30,950	20,970	0	0	1,475	19,495	1,550
KDFA series 2013 SRF-2	2014	0.50%	2015	5,100	5,100	0	0	5,100	0	0
KDFA series 2014 SRF-1	2015	0.50%	2016	5,200	0	0	5,200	0	5,200	5,200
Plus deferred amounts:										
Net unamortized premium (discount)				0	14,366	0	0	2,951	11,415	2,558
Total revenue bonds payable				<u>\$ 917,815</u>	<u>452,317</u>	<u>0</u>	<u>5,200</u>	<u>50,461</u>	<u>407,056</u>	<u>50,942</u>
Arbitrage rebate payable					190	0	47	0	237	0
Claims and judgments					198,631	0	59,462	0	258,093	21,434
Compensated absences					89	0	3	0	92	78
Other					11,965	0	0	285	11,680	0
Other post employment benefits					412	0	59	47	424	0
Net pension liability					0	6,661	356	1,497	5,520	0
Total business-type activities					<u>\$ 663,604</u>	<u>\$ 6,661</u>	<u>\$ 65,127</u>	<u>\$ 52,290</u>	<u>\$ 683,102</u>	<u>\$ 72,454</u>

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Component Units	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2014 Beginning Balance	Prior Period Adjustment	Additions	Deletions	6/30/2015 Ending Balance	Amounts Due In One Year
Revenue bonds payable:										
KDFA series 2001 B	2001	3.65 - 5.20%	2021	2,805	1,295	-	-	160	1,135	165
KDFA series 2001 W-1	2002	3.00 - 5.00%	2022	44,470	895	-	-	95	800	100
KDFA series 2002 H	2003	2.50 - 4.70%	2022	3,765	1,830	-	-	195	1,635	205
KDFA series 2002 N-2	2003	3.00 - 5.25%	2018	52,075	1,330	-	-	305	1,025	325
KDFA series 2003 A-2	2003	1.80 - 5.50%	2023	1,385	250	-	-	135	115	115
KDFA series 2003 C	2003	4.67 - 5.00%	2024	2,305	2,305	-	-	-	2,305	-
KDFA series 2003 D-2	2003	2.00 - 4.13%	2018	1,150	440	-	-	75	365	80
KDFA series 2005 A	2005	3.00 - 5.00%	2035	44,535	2,125	-	-	2,125	-	-
KDFA series 2005 D	2005	3.79 - 5.18%	2022	66,530	21,250	-	-	4,290	16,960	4,480
KDFA series 2005 E-1 & E-2	2005	3.00 - 5.00%	2030	19,360	1,335	-	-	655	680	680
KDFA series 2005 F	2006	3.25 - 4.40%	2026	8,930	6,610	-	-	450	6,160	450
KDFA series 2005 G	2006	3.30 - 4.60%	2026	7,205	5,550	-	-	370	5,180	380
KDFA series 2006 B	2006	3.50 - 4.13%	2021	9,790	9,015	-	-	1,140	7,875	1,185
KDFA series 2007 A	2007	3.75 - 4.39%	2037	27,750	8,650	-	-	8,650	-	-
KDFA series 2007 E	2007	3.75 - 4.30%	2027	6,275	4,620	-	-	280	4,340	290
KDFA series 2007 H	2008	3.60 - 4.50%	2037	17,855	15,645	-	-	420	15,225	435
KDFA series 2007 M	2008	3.50 - 4.60%	2027	18,220	13,830	-	-	830	13,000	860
KDFA series 2008 A	2008	3.00 - 4.00%	2016	20,000	5,000	-	-	2,500	2,500	2,500
KDFA series 2008 D	2008	5.10%	2038	1,600	1,600	-	-	-	1,600	-
KDFA series 2008 L	2009	2.00 - 5.25%	2029	21,070	17,270	-	-	835	16,435	865
KDFA series 2009 C	2009	3.00 - 5.00%	2017	20,000	7,500	-	-	2,500	5,000	2,500
KDFA series 2009 G	2009	2.50 - 4.75%	2024	825	590	-	-	50	540	50
KDFA series 2009 H-1 & H-2	2009	2.50 - 7.30%	2035	14,630	13,460	-	-	410	13,050	425
KDFA series 2009 J-1 & J-2	2009	2.50 - 7.00 %	2030	4,545	3,880	-	-	180	3,700	185
KDFA series 2009 K-1 & K-2	2010	2.63 - 5.63%	2040	6,140	5,915	-	-	120	5,795	125
KDFA series 2009 M-1 & M-2	2010	3.00 - 6.31%	2030	27,150	23,680	-	-	1,245	22,435	1,300
KDFA series 2010 A	2010	2.00 - 4.05%	2030	23,700	21,145	-	-	1,040	20,105	1,070
KDFA series 2010 B	2010	2.50 - 3.75%	2027	21,650	18,000	-	-	1,110	16,890	1,155
KDFA series 2010 G-1 & G-2	2010	2.00 - 6.60%	2040	21,565	21,065	-	-	505	20,560	510
KDFA series 2010 H	2010	2.00%	2016	1,530	515	-	-	265	250	250
KDFA series 2010 J	2010	0.75 - 4.45%	2030	14,765	12,445	-	-	600	11,845	610
KDFA series 2010 K-1 & K-2	2010	2.00 - 6.20%	2035	15,050	10,900	-	-	295	10,605	310
KDFA series 2010 M-1 & M-2	2010	2.00 - 5.10%	2026	20,990	17,390	-	-	1,250	16,140	1,275
KDFA series 2010 P-1 & P-2	2011	2.00 - 5.00%	2031	15,930	14,035	-	-	665	13,370	685
KDFA series 2010 U-1 & U-2	2011	1.80 - 6.20%	2029	25,180	20,335	-	-	1,835	18,500	1,710
KDFA series 2011 C	2011	2.00 - 4.50%	2036	13,450	12,320	-	-	385	11,935	395
KDFA series 2011 D-1, 2 & 3	2011	2.00 - 4.40%	2024	9,465	7,180	-	-	805	6,375	840
KDFA series 2011 G	2012	0.50 - 4.13%	2041	16,300	14,870	-	-	370	14,500	375
KDFA series 2012 A	2012	3.00 - 5.00%	2024	27,610	23,720	-	-	2,100	21,620	2,205
KDFA series 2012 D	2012	2.00 - 4.50%	2029	49,200	45,840	-	-	1,695	44,145	1,755
KDFA series 2012 F	2013	2.00 - 5.00%	2033	17,205	16,590	-	-	630	15,960	650
KDFA series 2012 H	2012	2.00 - 5.00%	2034	35,970	35,425	-	-	1,155	34,270	1,205
KDFA series 2014 A-1 & 2	2014	3.00 - 4.25%	2035	35,175	35,175	-	-	385	34,790	950
KDFA series 2014 B	2014	0.50%	2019	2,423	2,423	-	-	480	1,943	482
KDFA series 2014 C-1, 2, 3, 4 & 5	2014	3.00 - 5.00%	2039	56,655	56,655	-	-	35	56,620	1,245
KDFA series 2014 D-1, 2, 3 & 4	2014	3.00 - 5.00%	2035	133,550	133,550	-	-	1,270	132,280	2,015
KDFA series 2013 G-1 & 2	2014	4.00 - 5.00%	2038	77,335	77,335	-	-	520	76,815	2,455
KDFA series 2015 B-1, 2 & 3	2015	3.00 - 5.00%	2037	61,865	-	-	61,865	-	61,865	2,385
Plus deferred amounts:										
Net unamortized premium (discount)				-	36,477	-	3,495	3,435	36,537	-
Total revenue bonds payable				\$ 1,146,928	809,260	-	65,360	48,845	825,775	42,232
Other component units of university system										
Arbitrage rebate payable					351,973	-	94,453	39,499	406,927	28,464
Capital leases					51	-	369	16	404	-
Compensated absences					9,380	-	-	1,628	7,752	1,252
Other					78,918	-	1,968	2,427	78,459	64,215
Other post employment benefits					233,786	-	94	12,818	221,062	13,175
Net pension liability					64,993	-	9,455	3,433	71,015	-
Total component units					\$ 1,548,361	\$ 288,521	\$ 199,206	\$ 184,670	\$ 1,851,418	\$ 149,338

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The following table presents annual debt service requirements for those long-term debts outstanding, including bonds payable on demand, at June 30, 2015, which have scheduled debt service amounts (expressed in thousands):

	Governmental Activities		Business-type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
Revenue bonds:						
2016	\$ 173,520	\$ 145,554	\$ 48,384	\$ 18,182	\$ 42,232	\$ 33,091
2017	183,755	138,463	35,019	16,015	40,655	31,406
2018	196,050	130,985	35,804	14,340	39,807	29,712
2019	202,690	121,920	38,122	12,815	39,794	28,022
2020	208,750	111,313	31,083	11,270	40,820	42,232
2021-2025	996,380	408,974	138,299	34,185	210,510	103,088
2026-2030	611,935	219,389	65,260	9,470	177,255	59,842
2031-2035	584,940	72,841	3,670	154	124,545	30,645
2036-2040	68,940	1,070	0	0	57,920	9,612
2041-2045	0	0	0	0	15,700	1,549
Less bonds payable on demand	(147,000)	(46,420)	0	0	0	0
Unamortized premium	212,151	0	11,415	0	36,537	0
Totals	<u>3,292,111</u>	<u>1,304,089</u>	<u>407,056</u>	<u>116,431</u>	<u>825,775</u>	<u>369,199</u>
Notes payable:						
2016	951	722	0	0	0	0
2017	987	686	0	0	0	0
2018	1,024	649	0	0	0	0
2019	1,062	610	0	0	0	0
2020	1,102	570	0	0	0	0
2021-2025	6,013	2,192	0	0	0	0
2026-2030	5,548	1,028	0	0	0	0
2031-2035	1,406	103	0	0	0	0
2036-2040	0	0	0	0	0	0
2041-2045	0	0	0	0	0	0
Totals	<u>18,093</u>	<u>6,560</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Capital leases payable	80,809	28,090	0	0	7,752	1,097
Long-term debt without scheduled						
Debt service:						
Arbitrage rebate payable	184	0	237	0	404	0
Unemployment benefits loan	0	0	0	0	0	0
Claims and judgments	148,976	0	258,093	0	0	0
Compensated absences	113,015	0	92	0	78,459	0
Other post employment benefits	59,504	0	424	0	71,015	0
Net pension liability	1,750,877	0	5,520	0	240,024	0
Pollution remediation	48,747	0	0	0	0	0
Component Units of University system	0	0	0	0	406,927	0
Other	0	0	11,680	0	221,062	0
Total long-term obligations	<u>\$ 5,512,316</u>	<u>\$ 1,338,739</u>	<u>\$ 683,102</u>	<u>\$ 116,431</u>	<u>\$ 1,851,418</u>	<u>\$ 370,296</u>

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Included in the debt service requirements to maturity table above are variable rate debt maturities for the Kansas Department of Transportation. For those variable rate bonds the following table represents the aggregate debt service requirements and net receipts/payments on associated hedging derivative instruments as of June 30, 2015. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their entire term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary.

*(expressed in thousands)*

Fiscal Year Ended			Hedging Derivative Instruments	
June 30	Principal	Interest	(Net)	Total
2016	\$ 37,000	\$ 864	\$ 7,904	\$ 45,768
2017	38,145	756	5,776	44,677
2018	39,520	616	4,045	44,181
2019	49,945	408	2,752	53,105
2020	48,265	162	1,741	50,168
2021-2025	147,000	333	3,479	150,812
Total	<u>\$ 359,875</u>	<u>\$ 3,139</u>	<u>\$ 25,697</u>	<u>\$ 388,711</u>

#### General Obligation Bonds

The State does not have the statutory authority to issue general obligation bonds. However, the Legislature has authorized the issuance of specific purpose revenue bonds and other forms of long-term obligations.

#### Revenue Bonds

**Kansas Turnpike Authority (KTA)** has five outstanding series of Turnpike Revenue Bonds to finance part of the costs of construction, reconstruction, maintenance or improvement of the Kansas Turnpike. Principal and interest payments on these bond issues are paid from revenues collected from the operations of KTA, including toll revenues. Please reference Note III, Section I, Long-term Obligations, for KTA revenue bonds and future principal and interest payments.

**Kansas Development Finance Authority (KDFA)** was created to enhance the ability of the State to finance capital improvements and improve access to long-term financing for State agencies, political subdivisions, public and private organizations, and businesses. The KDFA has issued numerous outstanding series of bonds. These revenue bonds are secured by and payable from various pledged revenues, which include selected tax receipts such as withholding taxes, fees for services such as parking and residential halls, and appropriations. Please reference Note III, Section I, Long-term Obligations, for KDFA revenue bonds and future principal and interest payments.

**Kansas Department of Transportation (KDOT)** has ten outstanding series of Highway Revenue Bonds to finance part of the costs of construction, reconstruction, maintenance or improvement of highways in the State as part of the State's Transportation Works for Kansas (T-Works) Program. The State's T-Works Program was developed by KDOT after extensive study of the transportation needs in the State and was implemented by the 2010 Kansas Legislature. Principal and interest payments on these bond issues are paid from revenues collected in the State Highway Fund, which include motor fuels taxes, state sales taxes, compensating use taxes, and drivers' license and vehicle registration fees. KDOT also has four outstanding series secured by pledges of revenues from loans and leases. Please reference Note III, Section I, Long-term Obligations, above for KDOT revenue bonds and future principal and interest payments.

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### **III. Detailed Notes On All Funds**

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The coupon interest rate on outstanding bonds varies from 2.25 percent to 5.50 percent. In addition, various bonds were issued as variable rate instruments whose rates change on a weekly basis. During the year, interest rates ranged from 0.01 percent to 0.52 percent on the weekly adjustable bonds. The Series 2004 C bonds are demand obligations and are subject to tender under certain conditions. If the tendered bonds cannot be remarketed, various liquidity providers have agreed to purchase the bonds and hold them for a maximum of 180 days. The contract with the liquidity provider has an expiration date of September 2017 and requires an annual commitment fee of 0.325%.

#### **Sales Tax Limited Obligation Bonds**

Sales tax limited obligation bonds (STAR bonds) have been issued for various local governments throughout the state. Pursuant to issuance of the STAR bonds, the State and local governments have entered into Redevelopment District Tax Distribution Agreements. The agreements provide that the principal of, accreted value, and interest on the STAR bonds will be paid proportionally from the State's and the local governments' respective share of sales taxes generated within the related Districts. These bonds are special limited obligations of the State, where neither the principal of, redemption premium, if any, nor interest on these bonds constitutes a general obligation or indebtedness of, nor is the payment thereof guaranteed by the State. Accordingly, such STAR bonds are not included in the State's June 30, 2015 balance sheet. The State's portion of the STAR bonds at June 30, 2015 total \$203.6 million. Further details regarding STAR bonds may be found in the chart at the beginning of Note III. I. Long-Term Obligations.

#### **Special Obligation and Private Activity Bonds**

Special obligation bonds have various revenue streams that are pledged for repayment of principal and interest. These bonds are special limited obligations of KDFA, where neither the principal of, redemption premium, if any, nor interest on these bonds constitutes a general obligation or indebtedness of, nor is the payment thereof guaranteed by KDFA or the State. Accordingly, such special obligation bonds are not included in KDFA's June 30, 2015, balance sheet. KDFA's special obligation bonds at June 30, 2015, total \$2.6 billion.

Private activity bonds are special limited obligations of KDFA and are made payable solely from a pledge of the applicable trust estate that is comprised of a particular designated revenue stream of the borrower. Accordingly, such private activity bonds are not included on KDFA's June 30, 2015, balance sheet. KDFA's private activity bonds at June 30, 2015, total \$1.9 billion.

#### **Notes Payable**

The Pooled Money Investment Board is authorized as directed by statute to loan funds from the State treasury to State agencies for various capital projects, the Unemployment Insurance Fund and finance the Expanded Lottery operations. These internal loans are recorded as loans receivable in the State treasury's cash balance in Note III, Section A, Deposits and Investments, and in corresponding amounts of notes payable in Note III, Section I, Long-term Obligations.

The Kansas Water Office is charged by statute to meet, as nearly as possible, the anticipated future water supply needs of the citizens of Kansas. The agency has executed several water supply storage agreements with the Federal Government over the past 38 years for water supply storage capacity in large Federal multipurpose lakes under the provisions of the 1958 Federal Water Supply Act. Nine of these agreements provide for long-term (fifty-year) repayment with interest of the costs incurred by the Federal Government in construction of the water supply storage space. The Kansas Water Office is authorized by K.S.A. 82a-934 to enter into such agreements, subject to legislative approval through appropriations. Generally, however, receipts from the sale of water to local municipal and industrial water supply users are adequate to make the annual payments due under the long-term contracts with the Federal Government. Portions of the storage in some reservoirs have been designated as "future use" storage, and as such; the State is not required to make payments on that portion of storage until it is needed by users. The State has not recorded a liability at June 30, 2015, for portions of the storage designated as "future use" storage.



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### III. Detailed Notes On All Funds

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#### Lease Commitments

The State leases office buildings, space, and equipment. Although the lease terms vary under a variety of agreements, most leases are subject to annual appropriations from the State Legislature to continue the lease obligations. If a legislative appropriation is reasonably assured, leases are considered non-cancelable for financial reporting purposes. Any escalation clauses, sublease rentals, and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures.

#### Operating Leases

The State has commitments with non-state entities to lease certain buildings and equipment. Future minimum rental commitments for building and equipment operating leases as of June 30, 2015 are as follows (expressed in thousands):

Fiscal Year	
2016	\$ 9,868
2017	9,604
2018	9,041
2019	8,462
2020	7,864
2021-2025	32,644
2026-2030	17,432
2031-2035	17,857
2036-2040	8,033
Total future minimum lease payments	<u>\$ 120,805</u>
 Rent expenditures/expenses for operating leases for the year ended June 30, 2015	 <u>\$ 10,519</u>

#### Capital Leases

The State has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases and are reported as capital lease obligations. At the date of acquisition, the assets are valued on the Statement of Net Position at the present value of the future minimum lease payments. Interest expense for capital leases is not capitalized.

The following schedule presents future minimum lease payments as of June 30, 2015 (expressed in thousands):

Year Ending June 30	Governmental Activities	
	Principal	Interest
2016	\$ 5,899	\$ 3,449
2017	5,882	3,218
2018	5,815	2,989
2019	5,720	2,754
2020	5,688	2,516
2021-2025	25,112	9,095
2026-2030	23,663	3,727
2031-2035	3,030	342
<b>Total</b>	<u>\$ 80,809</u>	<u>\$ 28,090</u>

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Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2015, include the following (expressed in thousands):

	Governmental Activities
Land (non-depreciable)	\$ 9,495
Buildings	87,063
Equipment	30,758
Less: Accumulated depreciation	(52,704)
Total	<u>\$ 74,612</u>

#### Master Lease Purchase Program

The Master Lease Purchase Program, administered by the Department of Administration, provides low interest, equipment lease purchase financing and energy conservation project financing to State agencies. The Program began in 1985 with the issuance of Certificates of Participation and evolved into the current Program, which utilizes lines of credit. Lease purchase obligations under the Program are not general obligations of the State, but are payable from appropriations of State agencies participating in the Program, subject to annual appropriation. Financing terms of two years through fifteen years are available. The financing term should not exceed the useful life of the purchased item. The interest component of each lease/purchase payment is subject to a separate determination.

#### *Defeasance of Debt*

##### Primary Government

For financial reporting purposes, the State has in substance defeased certain bonds by issuing additional debt. Thus, the related liability and trust assets to pay the defeased bonds have been removed from the financial statements in the year of defeasance. Defeased debt at June 30, 2015, and changes for the fiscal year then ended are as follows (expressed in thousands):

Bond Issue	6/30/2014 Beginning Balance	Current Year Defeased	Payments	6/30/2015 Ending Balance
<b>Governmental Activities</b>				
KDOT Series 1998	\$ 12,020	\$ 0	\$ 12,020	\$ 0
KDOT Series 2004 A	370	0	370	0
KDFA Series 2005 H	0	52,980	52,980	0
KDFA Series 2006A	0	117,740	0	117,740
KDFA Series 2006L	0	5,835	0	5,835
KDFA Series 2007K	0	30,645	0	30,645
Total governmental activities	<u>\$ 12,390</u>	<u>\$ 207,200</u>	<u>\$ 65,370</u>	<u>\$ 154,220</u>

During fiscal year 2015, the governmental activity bond issue, \$207.2 million KDFA Series 2005H, 2006A, and 2006L was advanced refunded by the issuance of the KDFA Series 2015A for \$191.3 billion. The advance refunding resulted in an economic gain of \$28 million and aggregate debt service reduction of \$18 million.

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Bond Issue	6/30/2014 Beginning Balance	Current Year Defeased	Payments	6/30/2015 Ending Balance
<b>Business-type Activities</b>				
KDFA Series 2004 2	\$ 9,050	\$ 0	\$ 6,855	\$ 2,195
KDFA Series 2009 DW 1&2	29,515	0	0	29,515
KDFA Series 2004 DW 1&2	26,645	0	13,065	13,580
KDFA Series 2005 CW II	11,315	0	0	11,315
Total business-type activities	<u>\$ 76,525</u>	<u>\$ 0</u>	<u>\$ 19,920</u>	<u>\$ 56,605</u>

#### Component Unit

For financial reporting purposes, the Kansas Development Finance Authority has in substance defeased certain revenue and lease revenue bonds by issuing additional debt. Thus, the related liability and trust assets to pay the defeased lease revenue bonds have been removed from the financial statements in the year of defeasance. Defeased debt at June 30, 2015, and changes for the fiscal year then ended are as follows (expressed in thousands):

Bond Issue	6/30/2014 Beginning Balance	Current Year Defeased	Payments	6/30/2015 Ending Balance
<b>Component Units</b>				
KDFA Series 2003 A-1 & 2	\$ 1,225	\$ 0	\$ 0	\$ 1,225
KDFA Series 2004 D	615	0	100	515
KDFA Series 2005 A	34,905	1,035	34,905	1,035
KDFA Series E-1 & 2	13,655	0	13,655	0
KDFA Series 2007 A	15,325	8,005	15,325	8,005
Total component units	<u>\$ 65,725</u>	<u>\$ 9,040</u>	<u>\$ 63,985</u>	<u>\$ 10,780</u>

#### Arbitrage Rebate Payable

Estimated arbitrage rebate payables have been calculated and liabilities recorded of \$184 thousand for Governmental Activities, \$237 thousand for Business-type Activities, and \$404 thousand for Component Units.

#### Derivative Instruments

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2015, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2014 financial statements are as follows debit (credit) (expressed in thousands):

		<u>Change in Fair Value</u>		<u>Fair Value at June 30, 2015</u>		
		<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
<b>Governmental activities</b>						
Cash flow hedges:						
Pay-fixed interest rate swaps	Deferred outflow of resources		\$ (10,952)	Debt	\$ (12,072)	\$ 284,875
Investment derivative instruments:						
Pay-fixed interest rate swaps	Investment revenue		905	Investment	(9,039)	113,100

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### III. Detailed Notes On All Funds

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KDOT engaged an independent party to perform the valuations and required tests on the swaps. Of the swaps that qualify for hedge accounting under GASB 53, the changes in fair value for this period are to be offset by a corresponding deferred inflow/outflow account on the statement of net position.

All pay-fixed swap transactions are associated with variable debt. Combining a pay-fixed receive-variable rate swap with variable debt results in what is termed synthetic fixed rate debt. It is called synthetic because the economics are similar to fixed rate debt, but another instrument is involved unlike regular fixed rate debt. Each time KDOT created synthetic fixed rate debt, a comparison and determination was made that the fixed rate on regular debt would have been higher than the fixed rate on the swap.

For all swaps, there are three main strategies KDOT pursues with respect to each transaction. Each swap can achieve one or more of these strategies. Then as a result of execution of the derivative, its value will change with respect to how prevailing rates on each reporting period compare to when the derivative was put in place. The accumulated changes in fair value, or total fair value of all the derivatives, are a function of how prevailing interest rates and other market factors affect each transaction at each reporting period. Pursuant to GASB 53, each swap transaction is then evaluated to determine what type of accounting treatment to apply.

(i) Mitigate the effect of fluctuations in variable interest rates. This is the primary function of the swaps employed where KDOT pays a fixed rate, and receives a floating rate. In an interest rate environment whose level is generally higher than the rate at which KDOT is fixed, the swap would result in a positive value to KDOT. Correspondingly, in a lower rate environment than the rate at which KDOT is fixed, the swap would result in a negative value to KDOT. The value primarily depends on the overall level of interest rates on the reporting date compared to what KDOT pays. The overall level of long term interest rates from period to period is the primary driver of changes in value recorded from the investment derivatives where KDOT pays fixed and receives a floating rate. Interest rates have trended lower since inception of the pay fixed swaps. Therefore, the mark-to-market value is generally more negative to KDOT.

(ii) Reduce interest expense from expected benefit resulting from the difference between short and long term rates. This is the function of a swap where KDOT receives floating amounts based on a longer term index with the expectation of receiving an ongoing net benefit compared to short term rates paid on the variable bonds being hedged. Longer term interest rates, such as the 10 Year Constant Maturity Swap (CMS) Index, are generally higher than shorter term interest rates, such as a weekly rate, which KDOT pays on the variable bonds. Therefore, when shorter term interest rates came close to, or exceeded longer term rates, KDOT entered into a swap whose receipts on the floating leg are based on a longer term index that is expected to outperform the payments on KDOT's variable debt. Part of the fair value of this swap is determined by the prevailing level of short term versus long term rates, that is, the steepness of the yield curve. The higher the level of long term rates compared to shorter term rates, the higher the expected benefit to KDOT. Therefore, the higher the mark-to-market value of the swap. KDOT pays a fixed rate on one part of the swap transaction and the other part of the value of this swap is determined by the prevailing level of interest rates compared to when KDOT entered into the swap transaction. Since interest rates have trended lower since inception, the mark-to-market value will be more negative to KDOT, even though KDOT may be receiving a net benefit from the receipts based on the 10 Year CMS Index. Since the long term index is expected to out-perform the short-term variable rate, the tests under GASB 53 deem such transactions investment instruments.

(iii) Reduce interest expense from expected benefit resulting from the difference between tax-exempt and taxable rates. This is a function of swaps where KDOT receives a percentage of 1-Month LIBOR when hedging tax-exempt variable debt, with the expectation of receiving an ongoing net benefit from paying a lower fixed rate at the time of putting on the swap transaction. The historical average ratio of 1-Month LIBOR (short-term taxable rates) versus tax-exempt rates (a direct function of tax rates) is approximately 67 percent, but the ratio of long-term taxable rates and long-term tax-exempt rates is normally significantly higher than 67 percent. Therefore, the fixed rate payable in exchange for a smaller percentage of LIBOR will be significantly less than a long-term tax-exempt fixed rate. This reduction in fixed rate is the value of the benefit (the risk being tax rates change over the life of the percentage of LIBOR swap, or the variable rates on KDOT's hedged bonds do not closely match the percentage of LIBOR variable rate on the swap. The value of such a swap is determined by the prevailing level of taxable interest rates,

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with no reference to tax-exempt interest rates.

The following table provides a summary of the basic terms of the swap agreements as of June 30, 2015 (expressed in thousands):

Associated KDOT Bonds	Initial Notional	Current Notional	Effective Date	Maturity Date	Rate Paid	Rate Received	Fair Value	Bank Counterparty	Counterparty Rating
Series 2014 B *	\$ 200,000	\$ 133,045	10/23/2002	9/1/2019	3.164% Contractual; 0.8192% GASB 53 At- the-Market	67% of USD-LIBOR	\$ (701)	Goldman Sachs Bank USA	A1/A-/A
Series 2014 B *	120,005	79,830	3/1/2012	9/1/2019	3.1640% Contractual; 0.8183% GASB 64 At-the-Market	67% of USD-LIBOR	(422)	The Bank of New York Mellon	Aa2/AA-/AA-
Series 2012 A**	150,275	38,100	5/7/2012	9/1/2015	3.3590% Contractual; 0.2254% GASB 53 At- the-Market	Lesser of ABR/71% of USD-LIBOR 'til 9/2010; 71% of USD-LIBOR thereafter	(34)	Merrill Lynch Derivative Products AG	Aa3/A+/NR
Series 2004 C*	147,000	72,000	11/23/2004	9/1/2024	3.571%	63.5% USD-LIBOR + 0.29%	(10,949)	Goldman Sachs Bank USA	A1/A-/A
Series 2004 C**	75,000	75,000	7/1/2007	9/1/2024	3.571%	62.329% of 10 Year CMS	(9,005)	Goldman Sachs Bank USA	A1/A-/A
Total Termination Value							<u>\$ (2,111)</u>		

\* - considered a fair value hedge

\*\* - considered an investment derivative

#### KDOT derivative instruments detailed discussion

*Objective of the swaps.* In order to protect against the potential of rising interest rates, KDOT has entered into four separate pay-fixed, receive-variable interest rate swaps at a cost less than what KDOT would have paid to issue fixed-rate debt.

*Terms, fair values, and credit risk.* The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2015, are shown above. KDOT's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled or anticipated reductions in the associated bonds payable.

*KDOT Series 2014 B Swaps (Formerly 2002 B and C Swaps)-* In connection with the issuance of \$320 million of variable-rate KDOT Series 2002B & C Highway Revenue Refunding Bonds, on October 3, 2002, KDOT competitively bid a floating-to-fixed 67 percent of LIBOR interest rate swap. Goldman Sachs was awarded \$200 million of notional principal and Salomon Smith Barney was awarded \$120 million of notional principal. The executed transaction consisted of a \$320 million 17-year amortizing interest rate swap under which KDOT pays Goldman/Citibank a fixed rate of 3.164 percent and receives 67 percent of LIBOR. KDOT was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the traditional tax-exempt cash market.

On March 1, 2012, KDOT assigned with no termination payment due to or from KDOT, the Series 2002 B & C swap that was with Citigroup Financial Products Inc. as counterparty to The Bank of New York Mellon, a bank counterparty with stronger credit ratings. According to GASB 64, KDOT terminated hedge accounting on the swap with the prior counterparty, and adopted hedge accounting on the new At-the-Market swap with a fixed rate computed at prevailing interest rates on the day of termination.

On September 2, 2014, KDOT issued Series 2014B Bonds to refund the outstanding principal amounts of the Series 2002B & C Bonds. Under GASB 53, a refunding can be viewed as a termination of an existing hedging relationship and a subsequent new hedging relationship is entered into between the swap and the new bonds. This can result in a hybrid instrument that consists of an at-the market fixed rate swap with a pay fixed rate computed on the date of the

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refunding and an imputed borrowing that is considered a cost of refunding. This is amortized over the shorter of the life of the new bonds or refunded bonds.

*KDOT Series 2012A Swap (formerly 2008A, 2003C Swap)* - In connection with the issuance of \$150.3 million of variable-rate KDOT Series 2003C Highway Revenue Refunding Bonds, KDOT competitively bid a floating-to-fixed interest rate swap on November 20, 2003. The executed transaction consisted of a \$150.3 million 12-year amortizing floating-to-fixed interest rate swap whereby KDOT pays the counterparty a fixed rate of 3.359 percent and receives the lesser of the Actual Bond Rate and 71 percent of one month LIBOR until September 1, 2010, and 71 percent of LIBOR thereafter. KDOT was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the traditional tax-exempt cash market.

On May 13, 2008, KDOT refunded the Series 2003C Bonds with KDOT Series 2008A Bonds. Under GASB 53, a refunding can be viewed as a termination of an existing hedging relationship and a subsequent new hedging relationship is entered into between the swap and new bonds. This can result in a hybrid instrument that consists of an At-the-Market fixed rate swap with a pay fixed rate computed on the date of the refunding, and an imputed borrowing that is considered a cost of refunding. This is amortized over the shorter of the life of the new bonds or refunded bonds.

On May 7, 2012, KDOT assigned with no termination payment due to or from KDOT the Series 2008A swap that was with Merrill Lynch Capital Services Inc. as counterparty to Merrill Lynch Derivative Products AG, a bank counterparty with stronger credit ratings. According to GASB 64, KDOT terminated hedge accounting on the swap with the prior counterparty and continues with hedge accounting on a new at-the-market swap with a fixed rate computed at prevailing interest rates on the day of termination.

On August 30, 2012, KDOT refunded the Series 2008A Bonds with Series 2012A Bonds. Under GASB 53, a refunding can be viewed as a termination of an existing hedging relationship and a subsequent new hedging relationship is entered into between the swap and new bonds. This can result in a hybrid instrument that consists of an At-the-Market fixed rate swap with a pay fixed rate computed on the date of the refunding, and an imputed borrowing that is considered a cost of refunding. This is amortized over the shorter of the life of the new bonds or refunded bonds.

*KDOT Series 2004B and C Swaps* - In connection with the issuance of \$147 million of variable-rate KDOT Series 2004B and 2004C Highway Revenue Bonds, on November 12, 2004, KDOT competitively bid a floating-to-fixed interest rate swap. The executed transaction consisted of a \$147 million 20-year amortizing floating-to-fixed interest rate swap whereby KDOT pays the counterparty a fixed rate of 3.571 percent and receives 63.5 percent of LIBOR plus 29 basis points. KDOT was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the traditional tax-exempt cash market.

Since many tax-exempt and municipal issuers fund capital projects with long-term traditional or synthetic fixed-rate debt, but are constrained to investing short-term for liquidity reasons, in a normal or upwardly sloped yield curve they incur “negative carry” (cost of borrowing exceeds investment rate). KDOT determined that it could mitigate this imbalance through the execution of the two Constant Maturity Swaps (CMS). On June 15, 2007, based on the results of a previously distributed competitively bid request for quotes for a swap provider, effective July 1, 2007, KDOT amended the floating index from 63.5 percent plus 29 basis points to 62.329 percent of the 10-year LIBOR CMS rate on \$75 million of the existing \$147 million swap.

*Fair value.* These fair values take into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market’s best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

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*Credit risk.* As of June 30, 2015, KDOT has no credit risk exposure on the rest of the swap transactions. This is due to the swaps having negative fair values, meaning the counterparties are exposed to KDOT in the amount of the derivatives' fair values. However, should interest rates change and the fair values of the swaps become positive, KDOT would be exposed to credit risk.

The swap agreements contain varying collateral agreements with the counterparties. The swaps require collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds.

*Basis risk.* Basis risk is the risk that the interest rate paid by KDOT on underlying variable rate bonds to bondholders differs from the variable swap rate received from the applicable counterparty. KDOT bears basis risk on each of its swaps. The swaps have basis risk since KDOT receives a percentage of LIBOR to offset the actual variable bond rate KDOT pays on its bonds. KDOT is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate KDOT pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the swap may not be realized.

*Termination risk.* KDOT or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap had a negative fair value, KDOT would be liable to the counterparty for a payment equal to the swap's fair value.